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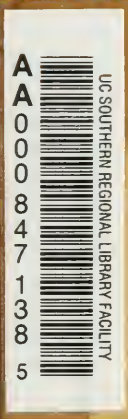

Bureau of municipal research. New York.

Memorandum of matters relating to New York City's debt that suggest the necessity either for judicial ruling or for legislation.

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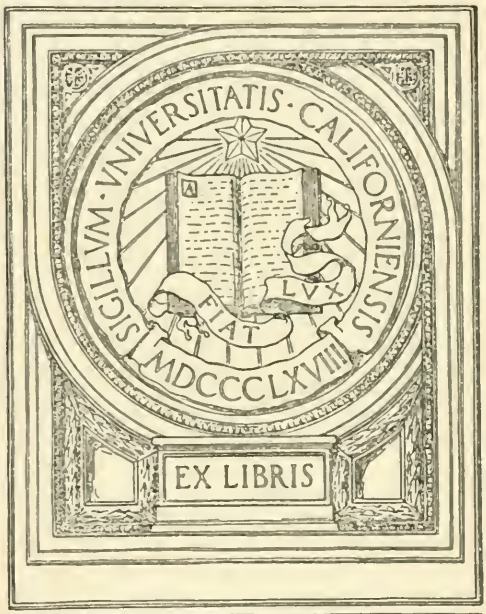

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MEMORANDUM OF MATTERS RELATING TO NEW YORK CITY'S DEBT THAT SUGGEST THE NECESSITY EITHER FOR JUDICIAL RULING OR FOR LEGISLATION .. ..

Submitted by the Bureau of Municipal Research to the referee and counsel in the suit of Jefferson M. Levy *versus* Board of Estimate and Apportionment; to the sub-committee on finance, accounting, etc. of the New York charter revision commission; and to counsel to the joint legislative committee appointed to investigate the finances of the City of New York

BUREAU OF MUNICIPAL RESEARCH
261 BROADWAY
September, 1908

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Introduction

Under the provisions of the constitution of the State of New York the limitation of indebtedness for the City of New York is fixed at 10 per cent. of the assessed valuation of its real estate subject to taxation.

This memorandum is based on a statement of the debt of the City of New York, prepared as of June 30, 1908, by the Bureau of Municipal Research. The treatment of the debt in this statement corresponds to the practice now employed by the department of finance. In considering the various elements that make up the debt, a number of questions have suggested themselves which it seems desirable should come under judicial consideration.

Without legal and authoritative rulings on many of the points suggested in this memorandum, controversy will continue and uncertainty exist respecting the city's borrowing capacity.

It is appreciated that some of the questions raised cannot perhaps be finally settled without constitutional amendment. It seems desirable, however, at this time to bring under discussion points of importance which may now, or in the future, bear upon the question of the indebtedness of the city. In this memorandum there will be considered, seriatum, each of the items appearing in the debt statement prepared by the Bureau of Municipal Research in the order there set forth and hereto appended as Exhibit A.

BUREAU OF MUNICIPAL RESEARCH.

September 12, 1908.

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1. WHOLLY OR PARTIALLY SELF-CARRYING BONDS

$336,852,529.72

This class includes bonds issued for rapid transit, dock, bridge, water and assessable improvement purposes. By constitutional amendment a portion of the debt created for water supply purposes has already been exempted. In addition, steps have been taken to secure an amendment of the constitution exempting such portion of bond issues for rapid transit and dock purposes which by judicial reference may be adjudged wholly self-carrying.

Question is here raised with respect to bridge bonds:

Should bridge bonds be classed in the same category as rapid transit bonds if it be determined that the income therefrom is sufficient to pay interest and provide for physical depreciation?

Should the constitution be amended exempting such bridge bonds in reckoning the borrowing capacity of the city?

2. BONDS FOR VARIOUS MUNICIPAL PURPOSES

$366,532,319.49

This class includes all bonds not otherwise specifically described in the debt statement, the details of which are given in Exhibit B hereto attached. For the purposes of this memorandum, this class of bonds may be grouped as follows:

Bonds payable through the sinking funds . . $336,791,907.19

Bonds payable through direct taxation at maturity $29,740,412.30

Question is raised with reference to the second group. This group includes bonds outstanding June 30, 1908, and issued by the former city of Brooklyn and other corporations in the counties of Queens, Richmond and Westchester, consolidated into the Greater City, for whose redemption no provision

other than by direct taxation exists. Provision is made in the budget for the annual installments required for the redemption of maturing bonds of this class. For example, in the preparation of the debt statement as of June 30, 1908, there were included items amounting to $711,930.23 representing bonds maturing in 1908, for whose redemption provision was made in the current budget.

Inasmuch as authority exists on January 1st of each year for the issue of revenue bonds in a sufficient sum to meet the installments falling due, and provided for in the budget, should the amount of such installments be deducted from the gross bonded indebtedness immediately the budget becomes effective?

3. COUNTY BONDS

$21,808,279.64

This class of bonds represents the obligations issued by the various counties now embraced in the City of New York, as follows:

New York County	$8,699,000.00
Kings County	8,235,000.00
Queens County	3,551,279.64
Richmond County	1,323,000.00

New York county bonds are redeemed through a sinking fund to which annual installments are paid, the title of the fund being "Sinking Fund for the Redemption of the City Debt No. 1." Bonds of the other counties are redeemed directly by taxation. All county bonds are exempted from the computation of the city debt by constitutional provision.

Should the amount of annual installments on such bonds provided for in the budget be deducted from the gross indebtedness on January first?

4. GENERAL FUND BONDS

$54,250,000.00

General fund bonds are issued and held by the sinking fund for the redemption of the city debt No. 1, and represent the excess revenues paid into that fund for the redemption of outstanding bonds. Provision is made for the cancellation of general fund bonds after the year 1929, provided they are then still held as assets of the sinking fund and are not required to meet any of its obligations. The net indebtedness of the city is not affected by the issue of general fund bonds, since, being exclusively held by the sinking fund, they are deducted from the gross debt.

5. ASSESSMENT BONDS

$35,515,783.45

Assessment bonds are issued in anticipation of the collection of assessments, to provide funds with which to regulate, grade and pave streets, build sewers and to carry on other assessable improvements. The cost of this work is divided between the city and the property owners benefiting by the improvement.

Should assessments imposed on the city be considered an indebtedness, and included in the computation of the city debt?

Is it proper to include in the computation of the city debt assessment bonds for whose redemption assessments have been levied?.

6. SPECIAL REVENUE BONDS

$6,542,000.00

Special revenue bonds are issued to provide funds in excess of the budget allowances for purposes for which no

provision was made in the budget. Their redemption is provided for by including in the budget of the year next succeeding the year of their issue an appropriation sufficient for their payment at maturity. Bonds of this class outstanding on June 30, 1908, were as follows:

Issued during 1907, payable on or after January 2, 1908	$2,890,000
Issued January to June, 1908, payable on or after January 2, 1909	225,000
Issued January to June, 1908, payable in January and February, 1909	3,427,000
	$6,542,000

The present practice when computing the city debt is to include all special revenue bonds outstanding. This practice is predicated on the absence of any provision in the constitution specifically excluding them.

Question may be raised, however, with reference to provision for their redemption. There were outstanding June 30, 1908, special revenue bonds to the amount of $2,890,000, for whose redemption provision was made in the budget of 1908.

Should there be deducted from the gross bonded debt, immediately on the taking effect of budget appropriations, the amount of special revenue bonds outstanding, for whose redemption the budget has made provision?

7. REVENUE BONDS

$119,274,986.92

Revenue bonds are issued in anticipation of the collection of taxes to provide funds to meet expenses incurred pursuant to budgetary appropriations. With reference to their treatment, the constitution provides:

a) That the 10 per cent. limitation does not apply to "certificates of indebtedness or revenue bonds issued in anticipation of the collection of taxes of amounts actually contained, or to be contained, in the taxes for the year when such certificates or revenue bonds are issued and payable out of such taxes."

b) That "All certificates of indebtedness or revenue bonds issued in anticipation of the collection of taxes which are not retired within five years after their date of issue.....shall be included in ascertaining the power of the city to become otherwise indebted."

The present practice of the department of finance, supported by a recent opinion of the corporation counsel, interprets the section of the constitution quoted in (a) above, to mean that revenue bonds issued against taxes in arrears, that is to say, against uncollected taxes of previous years, shall be included in the net debt.

Questions suggested by the provision of the constitution first quoted will doubtless be of prime importance in the deliberations of both referee and the state commission now considering the matter of the city debt.

In the light of the present practice the following considerations relate to this question:

1) Revenue bonds if issued against uncollected taxes of 1907 in December, 1907, are not included in the net debt;

2) Revenue bonds if issued in January, 1908, against the uncollected taxes of 1907 are included in the net debt.

In both instances the amount and purpose of issue may be assumed to be identical. Notwithstanding this fact, in selecting the time for issuing revenue bonds, the comptroller may, under the present practice, decrease the borrowing capacity of the city in a very considerable amount.

With respect to the constitutional provision quoted in (b) above, relating to the inclusion in the net debt of revenue

bonds five years outstanding, it may be argued that the intention of the constitution is to include in the net debt only such bonds as were issued against outstanding taxes now deemed uncollectible. This provision would seem to be a necessary precaution to protect the city against a continued issue of bonds against taxes known or properly deemed to be uncollectible. No such precaution appears to be necessary, however, with reference to the issue of bonds against taxes which, while in arrears, are known or deemed to be collectible.

A very material effect would be had upon the margin of the borrowing capacity of the city as of June 30, 1908, if there were included in the net debt only the following classes of revenue bonds:

1) Revenue bonds issued in the year of tax levy, outstanding for a period of five years or longer;

2) Revenue bonds issued against uncollected taxes in arrears for five years or longer.

Revenue bonds included in the net debt under the present practice:

Year of Tax Levy	Year of Issue	Amount
1902	1905	$100,000
1903	1905	5,000,000
1904	1905	1,000,000
1904	1907	2,259,000
1905	1907	7,000,000
1906	1907	9,376,210
		$24,735,210

Revenue bonds that would be included in the net debt under alternative treatment (1 and 2 supra):

Year of Tax Levy	Year of Issue	Amount
1902	1905	$100,000
1903	1905	5,000,000
		$5,100,000

By this treatment the margin of borrowing capacity as of June 30, 1908, would be increased $19,635,210.

There were outstanding as of June 30, 1908, uncollected taxes of previous years amounting to $88,740,433.47, as follows:

1908 and prior	$10,984,172.58
1899	5,061,455.07
1900	4,079,502.01
1901	7,311,799.25
1902	7,681,831.33
1903	6,776,641.98
1904	7,965,128.41
1905	9,462,842.37
1906	11,298,684.14
1907	18,118,376.33
	$88,740,433.47

Revenue bonds issued in anticipation of the collection of these taxes were outstanding June 30, 1908, in the amount of $45,408,986.92. Available for the redemption of a part of the outstanding bonds of 1907 included in this total there was on hand on June 30, 1908, $2,555,400.59, collected taxes of 1907. These taxes having been paid prior to June 30th, were not, of course, included in the statement of uncollected taxes shown above. Yet the revenue bonds represented by this amount of taxes, not yet having been redeemed, are included in the statement of revenue bonds outstanding. The result of the redemption of the 1907 bonds with the taxes collected and on hand on June 30th, for this purpose, would be to leave a further margin of taxes uncollected not covered by outstanding bonds, to wit:

Uncollected taxes	$88,740,433.47
Revenue bonds outstanding against them	45,408,986.92
Difference not covered by revenue bonds	43,331,446.55
Taxes collected but bonds not redeemed	2,555,400.59
Total uncollected taxes not covered by revenue bonds	45,886,847.14

This sum, $45,886,847.14, less the amount of the unexpended balances in the appropriation accounts of the years in question, as of June 30, 1908, it is assumed was expended for budget purposes. The balances in appropriation accounts being $8,801,069.98, as of June 30, 1908, the net deficiency—i.e., sum expended but represented neither by outstanding revenue bonds nor taxes collected—is $37,085,777.16.

If the assumption with respect to the expenditure of $37,085,777.16 is correct, such expenditures must have been made from funds provided from sources other than from the sale of revenue bonds or the collection of taxes. Had revenue bonds been issued to provide for these expenditures, the borrowing margin of the city, as of June 30, 1908, would be considerably reduced. In accordance with the present practice of the department of finance in the treatment of outstanding revenue bonds issued against uncollected taxes of previous years, or in the light of the suggestions here made with reference to the constitutional provisions regarding revenue bonds, a very considerable portion of the bonds, if they had been issued, would necessarily be included in the net debt. If the expenditures in question were paid out of the general cash of the city without reference to its source, the debt would appear to be as unquestionable as it would be if bonds had in fact been issued. The fact that the city maintains a general cash account makes possible the discharge of liabilities incurred in pursuance of a specific authorization, or chargeable to a specific fund without reference to the cash actually available at the moment for the purpose of such authorization of fund. The possibilities with reference to the sources of these funds appear to be:

1) Trust funds held in the general treasury;

2) Unallotted proceeds from the sale of corporate stock, assessment bonds or special revenue bonds;

3) Unexpended cash balances in various stock and bond accounts other than appropriation accounts represented by

a) Cash balances in funds against which contracts are registered and not in excess of the amounts of such contract liabilities;

b) Cash balances in funds against which no contracts are registered, or cash balances in excess of contract liabilities in funds against which contracts have been registered.

If the source of these expenditures was special or trust funds (1), a very clear obligation to recoup these funds exists, and one which apparently ought to be recognized in computing the city's debt.

If the source of the expenditures was the unallotted proceeds of bond sales (2), this fact would serve to make invalid the present practice of including, as a credit in the debt statement, such unallotted proceeds.

If (3a) these expenditures were made in part or wholly out of cash balances in various stock and bond accounts, the present statement of the debt would be affected, in so far as such expenditures had been made from the cash balances in funds against which contracts had been registered. Such cash balances are at present deducted from the gross contract liability as shown in the debt statement.

No material effect on the debt statement would be had if expenditures had been made from cash balances in funds against which no contracts had been registered (3b), or in funds where such cash balances were in excess of contract liabilities, because no cognizance is now taken of these assets in the preparation of the debt statement.

Another important aspect of the question of uncollected taxes is the recent writing off of $9,324,539.64, representing personal taxes levied in 1898 and previous years but now deemed uncollectible. For the purpose of providing for deficiencies in taxes of 1904 and years prior, deemed uncollect-

ible at January 1st, 1905, an issue of corporate stock to the extent of $36,000,000 was authorized in September, 1906. From the proceeds of a sale on February 1, 1907, of corporate stock for various municipal purposes, $3,000,000 was transferred on March 5, 1907, to a fund to be used for meeting such deficiencies. This transfer was made against the authorization of $36,000,000 in 1906.

Should the $9,324,539.64 written off be charged against the corporate stock fund authorization of $36,000,000, thus increasing the liabilities against this fund by $6,324,539.64 (after deducting the transfer of $3,000,000 above mentioned) **and be regarded in the same light as a contract liability chargeable against any corporate stock authorization?**

The $3,000,000 issued and transferred for the purpose of meeting deficiencies in taxes is now considered by the department of finance as a cash balance against which no contract liabilities exist,* and is for that reason not taken into account in the preparation of the debt statement.

8. EXEMPTIONS

$149,516,310.69

Revenue bonds issued the same year as tax levy	$94,539,776.92
County bonds (see section 3 supra)	21,808,279.62
Water debt incurred subsequent to Jan. 1, 1904	33,168,254.15

The constitution provides that "debts incurred" after the 1st of January, 1904, to provide for the supply of water, shall not be included in arriving at the margin of borrowing capacity.

Question is here raised relative to the construction of the above provision by the department of finance, in determining the present treatment of outstanding water bonds in the debt

* See section 14 "Cash Balances", etc.

statement. The department now excludes from the net debt that portion of the proceeds of water bonds issued subsequent to January 1, 1904, used to liquidate contract liability incurred after January 1, 1904, and in addition, the total net contract liability for water purposes not discharged at the date of the statement. Beginning with its statement of January 1, 1908, the department of finance has assumed that all payments made subsequent to January 1, 1904, on contracts for water purposes registered prior to that date, represent debt incurred prior to January 1, 1904, and consequently not to be excluded under the constitutional provision. Some of the payments on account of such contracts were made a considerable time after that date.

Should payments on contracts in excess of the amount thereof as estimated at the time such contracts were registered, be construed as debt incurred at the time such contracts were officially certified by the comptroller, irrespective of the time when the payments were made?

An examination of the payments made on account of water contracts disclosed the fact that the sum of $2,492,244.42 in excess of the original estimate was paid subsequent to January 1, 1904, on a contract registered prior to that date against the "additional Water Fund". This sum is not included by the department of finance in arriving at the amount of water debt incurred prior to January 1, 1904.

A further question with reference to the treatment of the water debt may be raised running to the intent of the constitutional provision exempting water debt incurred subsequent to January 1, 1904. Consideration should be given as to whether the intent of the provision is to exclude all water bonds issued, plus water contract liability, irrespective of the purposes for which the proceeds of water bonds issued are employed.

Is it intended to exclude only such portion of the water debt as is incurred to acquire self-sustaining water property and equipment, or is it intended to exclude, as well, water debt incurred for non-income producing investments?

9. SINKING FUND DEDUCTIONS

$198,104,664.02

It is provided by law that in arriving at the margin of borrowing capacity, bonds held by the various sinking funds for investment shall be deducted from the gross bonded indebtedness.

The department of finance does not include in the sinking fund deductions water bonds held by the sinking funds that represent debts incurred subsequent to January 1, 1904. This practice is based on the contention that such water bonds having been deducted from the gross bonded indebtedness by reason of the constitutional provision, should not again be deducted as a sinking fund holding.

If the purpose is to deduct the holdings of sinking funds applicable to the redemption of the bonded indebtedness, does reason exist for regarding water bonds differently from other bonds held by the sinking fund for this purpose?

The department of finance now includes in the sinking fund deductions that portion of their holdings applicable to the redemption of exempted water and county bonds. The effect of this practice is to expose the city to the risk of exceeding its borrowing capacity if any considerable amount of exempted bonds should mature in a year when the borrowing margin is low. The redemption of water bonds of this class, while materially affecting the borrowing capacity through a reduction of the sinking fund holdings, would not decrease the net debt, as these bonds are excluded from the net debt.

If it were decided to include in the sinking fund deductions exempt bond holdings, but to exclude that portion of sinking fund holdings as are pledged to the redemption of exempt bonds, the effect would be as follows:

Water bonds issued subsequent to January 1, 1904, held by the sinking funds for investment and not included when deducting sinking fund holdings	$6,662,498.26
Sinking fund holdings for the redemption, at maturity, of exempt water and county bonds	3,034,293.45
Giving an increased borrowing margin on June 30, 1908, of	**$3,628,204.81**

10. CASH BALANCES IN SINKING FUNDS

$7,474,489.34

This sum is made up as follows:

Sinking fund of the city of New York	$437,548.45
Water sinking fund of the city of New York	114,246.52
Sinking fund for the redemption of the city debt No. 1	5,088,513.84
Sinking fund for the redemption of the city debt No. 2	638,128.89
Sinking fund of the city of Brooklyn	120,393.79
Water sinking fund of the city of Brooklyn	1,051,943.80
Sinking fund of Long Island City for the redemption of revenue bonds	18,540.19
Sinking fund of Long Island City for the redemption of water bonds	2,495.97
Sinking fund of Long Island City for the redemption of fire bonds	2,677.89

Pursuant to an opinion of the corporation counsel, the department of finance does not take into account, when computing the city debt, the cash balances held by the sinking funds.

Does reason exist for differentiation between cash and bond holdings of the sinking funds, inasmuch as all such holdings are available for the purpose of redemption?

It is clear that such portion of cash holdings as are designated for the purchase of general fund bonds should not be deducted as being assets of the sinking fund. In this connection **the question should be considered whether revenues in excess of the requirements of the sinking funds should be included when deducting cash holdings.**

11. MORTGAGES HELD BY SINKING FUNDS

$64,680.00

The same question is raised respecting the treatment of this class of sinking fund holdings as an asset to be deducted when computing the city debt, as was suggested in the previous paragraph relating to cash balances. The present practice of the department of finance is not to deduct the mortgages held by the sinking funds.

12. ANNUAL INSTALLMENTS PROVIDED FOR IN THE BUDGET (1908)

$6,111,088.62

Included in the budget for each year are amounts necessary to provide for the amortization of outstanding bonds payable through the several sinking funds.

The question is here raised which was presented with reference to the redemption of special revenue bonds, namely:

May such installments be regarded as assets of the sinking funds immediately upon the taking effect of the budget in which they are appropriated?

The total installments payable in the current year and included in the 1908 budget were $6,111,088.62 of which only $579,224.60 had been paid to the sinking funds on June 30, 1908, leaving a balance unpaid of $5,531,864.02. Had all in-

stallments been paid on June 30th, thereby becoming available for investment, the borrowing capacity of the city would have thus been increased. To provide for such installments it is necessary only to issue revenue bonds having no effect upon the borrowing capacity. **If it were held that cash balances in the sinking funds may not be deducted, the desirability of prompt payment of installments would be emphasized.** Cash received on the payment of installments may be immediately invested in corporate stock, thereby to that extent preventing an increase in the net debt.

13. NET CONTRACT LIABILITY

$51,108,334.15

It is the practice of the department of finance to include as net contract liability the unpaid portion of certified and registered contracts payable from corporate stock, special revenue bond, and assessment bond funds, less the amount of cash balances in those funds against which contracts are registered. Contract liability for water purposes, except such as may relate to the period prior to January 1, 1904, is not included.

The following is a brief summary of the net contract liability as shown in the debt statement as of June 30, 1908.

Class of Fund from Which Payable	Gross Contract Liability	Cash Balance	Net Contract Liability
Corporate stock			
Various	$39,404,014.72	$2,161,994.66	$37,242,020.06
Rapid transit ..	10,899,023.91	103,056.26	10,795,967.65
Water	22,754,364.89	357,431.74	22,396,933.15
Forward	$73,057,403.52	$2,622,482.66	$70,434,920.86

Forward	$73,057,403.52	$2,622,482.66	$70,434,920.86
Special revenue bonds	347,265.48	28,210.52	319,054.96
Assessment bonds	6,294,599.22	599,139.03	5,695,460.19
Old borough funds	14,804.13	4,854.37	9,949.76
	$79,714,072.35	$3,254,686.58	$76,459,385.77
Deduct			
Water contract liability applicable to period subsequent to January 1, 1904.	$22,351,051.62		
Land liability included as contract liability for rapid transit purposes considered nil	3,000,000.00	$25,351,051.62	
Net contract liability June 30, 1908.....			$51,108,334.15

The present practice does not take cognizance of outstanding unpaid open market orders chargeable against corporate stock and special revenue bond funds. In fact, the department of finance has no present method of ascertaining the liability of the city on this score.

Inasmuch as an actual liability exists by reason of the issuance of open market orders, should this indebtedness be included in ascertaining the net contract liability?

14. CASH BALANCES IN CORPORATE STOCK, SPECIAL REVENUE BOND AND ASSESSMENT BOND FUNDS

On June 30, 1908, there were unexpended cash balances of various corporate stock, special revenue bond, and assessment bond funds to the amount of $8,997,818.68, as follows:

Cash balances applied to the reduction of gross contract liabilities..	$2,897,254.84
Cash balances applied to the reduction of water contract liability...	357,431.74
Cash balances in excess of contract requirements	185,957.29
Cash balances against which no contracts were then registered.....	5,557,174.81
	$8,997,818.68

With respect to these balances, the following questions are raised:

What disposition is to be made of cash transferred to a specific fund in excess of the requirements of that fund?

May it be re-transferred to the unallotted proceeds account or is it necessary that if unused it be turned into the general fund?

At what point in the procedure with respect to the execution of a contract are contract liabilities to be considered debt?

Is the act of registration a discretionary act, or purely ministerial, mandatory on the award of the contract chargeable against a fund duly authorized by the fiscal authorities?

The present practice is to take no cognizance of contract liabilities until the contracts in question have been registered by the comptroller. On June 30, 1908, according to the statement of the chief bookkeeper in the department of finance, contracts to the amount of $3,690,000.00 had been awarded and were awaiting certification.

In determining the contract liability, shall the full estimated amount of the contract obligation be included immediately upon the certification of the contract without reference to the probable date upon which payment on account of contract will become due?

15. NET LAND LIABILITY

$21,754,382.25

This sum is made up as follows:

Park purposes	28,800.14
Water purposes (prior to Jan. 1, 1904)	400,000.00
Bridge purposes	11,224,206.00
School purposes	1,024,642.00
Dock purposes	6,450,739.14
Miscellaneous purposes	2,625,994.97
	$21,754,382.25

As a contingent liability, payable out of the proceeds of corporate stock, under court order the estimated cost of lands in process of acquisition is included in the computation of the city debt. Inasmuch as it frequently occurs that several years elapse before payment is made on awards in condemnation, and that during the period intervening between the award and its payment interest accrues on the award, a question is raised as to whether the amount of this interest should not be included as a liability when computing the city debt, a practice now not followed.

Two important questions for determination in this connection are:

At what point does indebtedness arise in the procedure for the condemnation of land; does it arise at the initiation of proceedings on the report of the commission, or on the confirmation of the report?

Should agreements to purchase real estate at private sale be considered liabilities upon the signing of the agreement of sale and included when computing the city debt?

16. UNALLOTTED PROCEEDS OF STOCK AND BOND SALES

The following is a summary of the unallotted proceeds from the sale of corporate stock, special revenue bonds and assessment bonds that had not been apportioned or transferred on June 30, 1908:

	Principal	Premium	Total
Corporate stock:			
Various municipal purposes	$12,598,977.54	$524,086.27	$13,123,063.81
Rapid Transit	1,599,000.00	68,855.29	1,667,855.29
Water	3,214,500.00	137,063.19	3,351,563.19
	$17,412,477.54	$730,004.75	$18,142,482.29
Special revenue bonds	244,018.26		244,018.26
Assessment bonds	1,125,000.00	7,825.04	1,132,825.04
	$18,781,495.80	$737,829.79	$19,519,325.59

It is the practice of the department of finance to increase the margin of borrowing capacity by the amount of unallotted proceeds from the sale of corporate stock and assessment bonds. The unallotted proceeds from the sale of water bonds are not credited, inasmuch as the bonds themselves are exempt. Hitherto, it has not been the practice to credit unallotted proceeds from the sale of special revenue bonds, although no principle not applicable as well to corporate stock is suggested as a reason for the difference in treatment.

Should unallotted proceeds from the sale of special revenue bonds be considered in the computation of the city debt as are now considered the proceeds of the sale of corporate stock and assessment bonds?

Is the present practice of increasing the borrowing margin by the unallotted proceeds from the sale of corporate stock and assessment bonds consistent with the theory applied to cash balances in funds against which no contracts are registered?

17. JUDGMENTS

No cognizance is now taken by the department of finance, in computing the city debt, of judgments filed against the city. The following question suggests itself:

Should unpaid judgments obtained against the city be considered liabilities and be included when computing the city debt?

18. PREMIUM ON BONDS SOLD

The present practice with respect to premiums secured on the sale of bonds is to credit to the specific authorizations a proportionate amount of the premium realized.

Inasmuch as the premium is received because of the interest rate borne by bonds sold, should all premiums realized be transferred to a fund for the payment of interest on the city debt?

19. CAPITALIZATION OF REVENUE EXPENDITURE

There is complete lack of regulation with respect to the uses, by departments, of the proceeds of corporate stock whose terms extend from twenty to fifty years. Numerous instances have been found of authorizations for the issue of such corporate stock for purposes clearly not of a capital character. Numerous other instances are continually observed where the proceeds of corporate stock issued for permanent improvements are employed to meet current expense.

It is suggested that the **purposes for which such stock may be issued should be clearly defined, and rules laid down for the guidance of the fiscal authorities and city departments in its authorization and use.**

20. SUGGESTED METHOD OF ARRIVING AT THE NET INDEBTEDNESS OF THE CITY

Is it advisable to broaden the debt statement so as to include numerous items now not considered relating both to assets and liabilities?

The following entirely tentative outline statement is submitted as a possible aid to discussion:

Liabilities:

- Bonded indebtedness, less constitutional exemptions
- Contract liabilities of all classes
- Land liabilities
- Outstanding open market orders of all classes
- Amount due special or trust funds
- Accrued interest
- Judgments
- Awards
- Accounts payable—all classes
- Other current liabilities, including payrolls and maintenance charges.

Realizable assets applicable to the liquidation of the above liabilities:

- Sinking fund holdings, all kinds for the redemption of bonds
- Cash balances in hands of chamberlain
- Uncollected taxes
- Uncollected assessments
- Other income accrued, but not yet received, including:
  - Water rents
  - Dock leases
  - Dock receipts
  - Park privileges
  - Market leases
  - Forfeitures
  - Redemptions
  - Sales of manufactured goods
- All other current assets

The difference between the totals of the above two groups would be the net debt, which, deducted from the amount representing 10 per cent. of the assessed valuation of real estate would show the margin of borrowing capacity at any given date.

Exhibits

A. Statement of the debt of the city of New York, as of June 30, 1908, showing the elements considered by the department of finance in ascertaining the constitutional limitation of indebtedness.

AA. Summary of the alternative possibilities in the treatment of the city debt suggested in this memorandum, showing the effect on the margin of borrowing capacity.

B. Particulars of bonds for various municipal purposes outstanding June 30, 1908, and not specifically classified in Exhibit A.

C. Particulars of revenue bonds outstanding June 30, 1908.

D. Condensed summary of sinking fund investments—bonds held June 30, 1908.

EXHIBIT "A"

Statement as at June 30, 1908, Showing the Elements Considered by the Department of Finance in Ascertaining the Constitutional Limitation of Indebtedness.

Gross bonded indebtedness outstanding June 30, 1908:			
Wholly or partially self-carrying bonds:			
Rapid transit		$52,894,000.00	
Dock		87,870,840.00	
Bridge		77,047,693.51	
Water		83,524,212.76	
			$301,336,746.27
Bonds for various other municipal purposes (Exhibit B)			366,532,319.49
County bonds			21,808,279.64
General fund bonds			54,250,000.00
Assessment bonds			35,515,783.45
Special revenue bonds			6,542,000.00
Revenue bonds			119,274,986.92
TOTAL GROSS BONDED INDEBTEDNESS			$905,260,115.77
Deduct			
Bonds exempted by constitutional provision, when determining the margin of indebtedness, viz:			
Revenue bonds issued in same year as tax levy			
1907	$20,673,776.92		
1908	73,866,000.00		
		$94,539,776.92	
County bonds		21,808,279.64	
Water debt incurred subsequent to January 1, 1904		33,168,254.13	
			$149,516,310.69
Deduct			$755,743,805.08
Sinking fund holdings for the redemption of bonds:			
Investments in bonds of the city of New York		$198,104,664.02	
Less			
Holdings of exempt water bonds		6,662,498.26	
			$191,442,165.76
			$564,301,639.32
Net contract liability			51,108,334.15
Net land liability (estimated)			21,754,382.25
			$637,164,355.72
Deduct			
Proceeds from sale of bonds, not yet apportioned and transferred			15,923,744.14
Total net debt			$621,240,611.58
10 per cent. assessed valuation of real estate for 1907			624,048,060.20
Estimated margin, June 30th, 1908			$2,807,448.62

EXHIBIT "AA"

Alternative Possibilities in the Treatment of the City Debt

NOTE: Amount is not inserted in all cases where figures were not available.

Reference in Memo		Effect on Margin of Borrowing Capacity as at June 30, 1908.	
		Increase	Decrease
2	If bonds, other than special revenue, county and general fund bonds redeemable from direct taxation and the redemption of which was provided for in the 1908 budget were excluded	$711,730.23	
5	If assessments imposed against the City were included		——
5	If assessment bonds were excluded	——	
6	If **all** special revenue bonds were excluded	6,542,000.00	
6	If only those special revenue bonds were excluded whose redemption is provided for in the 1908 budget	2,890,000.00	
7	If the five year clause relative to revenue bonds were construed to apply to the year of tax levy instead of to the year of issue	19,635,200.00	
7	If the difference between budget appropriations expended and uncollected taxes of 1907 and prior less outstanding revenue bonds applicable thereto, were included		$37,085,777.16
7	If the $9,321,539.64 of uncollectible taxes written off May 26, 1908 were charged against the $36,000,000.00 corporate stock authorization for deficiencies in taxes and of which but $3,000,000.00 has been issued		6,321,539.64
8	If all payment made subsequent to Jan. 1, 1904 on contracts for water purposes registered prior to that date, in excess of the estimated amount of such contracts, be construed as representing debt incurred prior to January 1, 1904		2,192,244.12
8	If water debt exemptions were construed as not applying to those bonds issued for non-income producing purposes such as high pressure systems for fire purposes amounting to		4,099,250.00
8	If net contract liabilities for high pressure systems for fire purposes were excluded from water contract liability deductions		621,456.27
9	If exempt water bonds held by the sinking funds were considered simply as investments and hence to be included with sinking fund deductions	6,662,498.26	
9	If sinking fund holdings for redemption of exempt water and county bonds were excluded from sinking fund deductions		3,034,293.15
10	If cash balances in the sinking funds were viewed as for the same general purpose as the securities held, i. e.—for the redemption of the city debt and were deducted therewith[1]	7,474,189.34	

10	If payments to the sinking funds in excess of the required installments for amortization were excluded from the sinking fund exemptions		———
11	If mortgages held by the sinking fund were included in the sinking fund deductions	64,680.00	
12	If the amount of annual installments included in the budget and required to be paid into the sinking funds were considered as part of the sinking fund holdings immediately budget took effect	5,531,864.02	
13	If amounts due on open market orders were included the same as are net contract liabilities		———
14	If cash balances in excess of contract requirements were considered a proper offset against the debt	185,957.29	
14	If cash balances applied to the reduction of water contract liability were considered a proper offset against the debt	357,431.74	
14	If cash balances against which no contracts are registered, etc., were considered a proper offset against the debt	5,557,174.81	
14	If cash balances applied to the reduction of gross contract liabilities were not considered a proper deduction		2,897,254.84
14	If contracts were considered as liabilities at the time of award instead of at the time of certification[2]		3,690,000.00
14	If it were not necessary to include as contract liability the entire amount of contracts which related to work requiring several years to complete	———	
15	If land liabilities were more accurately estimated		———
15	If accrued interests on unpaid awards for land were included as part of the debt		———
15	If agreements to purchase real estate at private sale were considered liabilities and included		———
16	If unallotted proceeds from sales of special revenue bonds were considered applicable to increase the borrowing margin in the same manner as are unallotted proceeds of corporate stock	244,018.26	
16	If unallotted proceeds from sale of corporate stock and assessment bonds were not considered a proper offset		15,923,744.14
16	If unallotted proceeds from sale of corporate stock for water purposes were considered a proper offset	3,351,563.19	
17	If unpaid judgments obtained against the city were included		———

[1] There is a possible exception to the above in case of cash balance of sinking fund for the redemption of city debt No. 1 to be used for purchase of general fund bonds.

[2] From testimony of chief bookkeeper before referee, August 19, 1908

EXHIBIT "B"

Particulars of Bonds for Various Purposes Outstanding June 30th, 1908, not Specifically Classified on Exhibit "A."

Purposes	Specific issues	Transfers from proceeds of sales of corporate stock for various municipal purposes.	Total outstanding June 30, 1908.
Library	$6,128,054.90	$981,083.71	$7,109,138.61
Schools and Colleges—Buildings and Equipment	57,697,525.41	45,119,057.00	102,816,582.41
Park and Road Purposes	51,701,173.78	8,586,390.89	60,290,564.67
Improving, Paving and Repaving Streets and Avenues	26,516,924.59	12,487,869.22	39,034,793.81
Street and Park Openings	21,633,171.51	16,988,166.29	38,621,337.80
Departmental, Municipal and Other Public Buildings	13,314,677.74	4,567,702.72	17,882,380.46
Museums—Buildings and Equipment	7,320,103.36	1,522,600.00	8,842,703.36
Hospital—Buildings and Equipment	937,321.70	4,685,316.90	5,622,638.60
Armory—Buildings and Equipment	3,921,464.20	2,582,586.12	6,504,050.32
Departmental Equipment, etc., etc.	5,769,429.38	9,134,164.92	14,903,594.30
Sewers	3,234,900.00	1,346,210.00	4,581,110.00
Public Baths	1,072,000.00	1,298,117.50	2,370,117.50
Public Markets	2,812,715.15	849,200.00	3,691,915.15
Awards, Costs, etc.	1,936,649.19	422,072.10	2,358,721.29
Typographical Bureau and Maps		1,499,000.00	1,499,000.00
Deficiencies in Taxes Deemed Uncollectible		3,000,000.00	3,000,000.00
Deficiencies in Assessments (Town of New Lots)		36,120.21	36,120.21
Abolishing Grade Crossings		1,191,264.51	1,191,264.51
Change of Grade Damage Commission		485,720.25	485,720.25
Municipal Electric Lighting Plant		625,000.00	625,000.00
Municipal Asphalt Repair Plant		25,000.00	25,000.00
Local Improvements—Brooklyn	4,116,500.00		4,116,500.00
City Improvements	778,772.36		778,772.36
Ward's Island Purchase	819,769.40		819,769.40
Rights of Way, etc.—new route for the Spuyten Duyvil and Port Morris R. R.	551,025.00		551,025.00
Refunding Old Debt Issued Prior to 1880	9,700,000.00		9,700,000.00
Refunding Bonds and Stock Maturing 1896	7,000,000.00		7,000,000.00
Arrearage Bonds—City of Brooklyn	1,399,000.00		1,399,000.00
Payment of Arrears of State Taxes for Support of Insane	1,377,000.00		1,377,000.00
Payment of Judgments, etc.	1,256,741.98		1,256,741.98
Payment of Assessments Imposed Prior and Subsequent to January 1, 1898	1,000,000.00		1,000,000.00
Payment of Old Kings County Obligations	700,000.00		700,000.00
Redemption of Assessments for Improvement of 4th Avenue	768,800.73		768,800.73
Sundries	2,084,457.08	889,522.15	2,973,979.23
Proceeds from Sale of Bonds for Various Municipal Purposes Not Allotted		12,598,977.54	12,598,977.54
TOTAL	$235,611,177.46	$130,921,142.03	$366,532,319.49

EXHIBIT "C"

Particulars of Revenue Bonds Outstanding June 30, 1908.

Issued against collection of taxes—year of	Month and year of issue	Year of maturity.	Amount outstanding June 30, 1908.		
1902	December, 1905	1908			$100,000.00
1903	December, 1905	1908			5,000,000.00
1904	December, 1905	1908		$1,000,000.00	
1904	December, 1907	1908		2,259,000.00	
					3,259,000.00
1905	November, 1907	1908			7,000,000.00
1906	November, 1907	1908		376,210.00	
1906	December, 1907	1909		9,000,000.00	
					9,376,210.00
Total outstanding revenue bonds issued against prior year taxes.					$24,735,210.00
1907	January, 1907	1907		60,000.00	
1907	October, 1907	1908	$4,725,286.92		
1907	October, 1907	On demand	251,790.00		
				4,977,076.92	
1907	November, 1907	1908	$4,505,000.00		
1907	November, 1907	1909	6,000,000.00		
1907	November, 1907	1910	5,000,000.00		
1907	November, 1907	On demand	41,700.00		
				15,546,700.00	
1907	December, 1907	1908		90,000.00	
				$20,673,776.92	
1908	January, 1908	1908	$10,050,000.00		
1908	January, 1908	1909	16,500,000.00		
1908	January, 1908	1910	8,500,000.00		
				$35,050,000.00	
1908	May, 1908	1908	$38,456,000.00		
1908	May, 1908	1909	71,000.00		
				$38,527,000.00	
1908	June, 1908	1908	268,400.00		
1908	June, 1909		20,600.00	289,000.00	
Total outstanding revenue bonds issued in same year as tax levy.					94,539,776.92
Total revenue bonds outstanding.					$119,274,986.92

EXHIBIT "D"

Condensed Summary of Sinking Fund Investments—Bonds Held June 30th, 1908.

Purpose.	Total	Sinking Fund of the City of New York.	Sinking Fund for the Redemption of the City Debt No. 1.	Sinking Fund for the Redemption of the City Debt No. 2.	Water Sinking Fund of the City of New York.	Sinking Fund of the City of Brooklyn	Water Sinking Fund of the City of Brooklyn.	Sinking Fund of Long Island City for the Redemption of Revenue Bonds.	Sinking Fund of Long Island City for the Redemption of Fire Bonds	Sinking Fund of Long Island City for the Redemption of Water Bonds.
Rapid Transit	$1,452,050.00	$716,050.00	$100,000.00	$101,000.00	$500,000.00	$36,000.00				
Dock	18,292,000.00	200,000.00	18,092,000.00							
Bridge:										
Williamsburg	3,082,148.66	500,000.00	1,425,148.66	56,000.00	600,000.00	502,000.00				
Manhattan	903,000.00	40,000.00	795,000.00	68,000.00						
Blackwells Island	132,000.00	67,000.00	40,000.00	26,000.00						
Brooklyn	723,800.00		581,800.00			142,000.00				
Other bridges	7,049,497.06	288,000.00	6,550,422.72	120,074.34		11,000.00	$75,000.00			$5,000.00
Total bridges	**11,890,445.72**	**885,000.00**	**9,392,371.38**	**278,074.34**	**600,000.00**	**655,000.00**	**75,000.00**			**5,000.00**
Water:										
Issued prior to Jan. 1, '04	13,874,239.50	296,000.00	4,008,344.74	8,137,500.00	1,607,000.00	956,394.76	851,000.00	$19,000.00		
" subsequent to Jan. 1, '04	6,662,495.26	2,838,685.76	2,586,500.00	359,000.00	220,000.00	296,812.50	522,500.00	36,000.00		4,000.00
Assessment	9,947,398.86	3,358,242.42	4,265,831.65	96,341.20	861,609.49	1,712,374.10	160,000.00	3,000.00		
Various other municipal purposes	80,011,031.68	10,864,892.84	58,169,593.48	825,709.67	2,000,770.05	6,617,673.00	1,714,387.64		$16,000.00	2,000.00
General fund	54,260,000.00		54,260,000.00							
Special revenue bonds	1,726,000.00		1,160,000.00	150,000.00	126,000.00	300,000.00				
Revenue bonds										
TOTAL	$198,104,664.02	$18,956,871.02	$152,014,641.25	$7,746,625.21	$5,414,379.54	$10,674,259.36	$3,312,887.64	$58,000.00	$16,000.00	$11,000.00

BUREAU OF MUNICIPAL RESEARCH

HISTORY

January 1st, 1906 Organized as "Bureau of City Betterment"

May 3rd, 1907 Incorporated as "Bureau of Municipal Research"

PURPOSES

To promote efficient and economical municipal government; to promote the adoption of scientific methods of accounting and of reporting the details of municipal business, with a view to facilitating the work of public officials; to secure constructive publicity in matters pertaining to municipal problems; to collect, to classify, to analyze, to correlate, to interpret and to publish facts as to the administration of municipal government. (Articles of Incorporation)

REPORTS, JANUARY, 1906 to AUGUST, 1908

Some Phases of the Work of the Department of Street Cleaning

City Owned Houses

Salary Increases Not Provided for in Budget

Inefficiency of Inspection of Combustibles

The City of New York, the Street Railroad Companies and a Million and a Half Dollars

How Manhattan is Governed

Analysis of the Salary Expenditure of the Department of Health of the City of New York for the Year 1906

Making a Municipal Budget; Functional Accounts and Records for the Department of Health

New York City's Department of Finance

The Park Question, Part II, Critical Study and Constructive Suggestions Pertaining to Revenue and Deposits of the Department of Parks: Manhattan and Richmond

Memorandum of Matters Relating to New York City's Debt that Suggest the Necessity either for Judicial Ruling or for Legislation

REPORTS IN PROGRESS, AUGUST, 1908

The Park Question, Part I, Critical Study and Constructive Suggestions Pertaining to Administrative and Accounting Methods of the Department of Parks: Manhattan and Richmond

On Physical Examination of School Children

Summer Care of Babies

Proposed Reorganization of the Department of Health

Control of Water Revenues

Administration of Department of Water Supply, Gas and Electricity

Real Estate Transactions, Department of Finance

Tenement House Administration

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